Corporate Financial Structure and Export Quality: Evidence from France☆

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Abstract

Does the corporate financial structure determine the ability of a firm to compete in foreign markets through quality? We investigate this question by estimating the perceived quality of individual French exporters' output within different destination markets. Once we control for firms' heterogeneity and reverse causality, we find that the ratio of exporters' debt over to total assets is negatively correlated with a theoretically grounded estimator of export quality. This result only holds for exporters with insufficient internal resources to finance current expenses. We argue that the negative impact of leverage on quality is consistent with models predicting that debt financing hampers the incentive to invest in quality upgrading. However, this distortion appears to affect only firms for which high leverage is not the outcome of a value-optimizing choice but rather a consequence of insufficient internal resources.

Keywords: Export, Output Quality, Leverage
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1. Introduction

Departing from the Modigliani and Miller (1958) theorem, a number of empirical papers question the irrelevance of corporate financial structure for real activities by showing that leverage, as a measure of debt financing, affects investment patterns and productivity growth within firms (e.g., Aivazian et al., 2005; Nucci et al., 2005;

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